

**STATE OF NORTH DAKOTA
BISMARCK, NORTH DAKOTA**

**REPORT OF EXAMINATION
OF
DUNDEE MUTUAL INSURANCE COMPANY
PARK RIVER, NORTH DAKOTA**

**AS OF
DECEMBER 31, 2004**

STATE OF NORTH DAKOTA
DEPARTMENT OF INSURANCE

I, the undersigned, Commissioner of Insurance of the State of North Dakota do hereby certify that I have compared the annexed copy of the Report of Examination of the

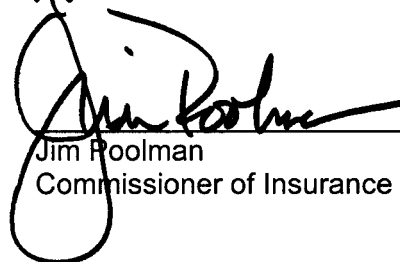
Dundee Mutual Insurance Company

Park River, North Dakota

as of December 31, 2004, with the original on file in this Department and that the same is a correct transcript therefrom and of the whole of said original.



IN WITNESS WHEREOF, I have hereunto
set my hand and affixed my official seal at my
office in the City of Bismarck, this 23rd day of
November, 2005.



Jim Poolman
Commissioner of Insurance

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August 11, 2005
Park River, North Dakota

Honorable Jim Poolman
Commissioner of Insurance
North Dakota Insurance Department
600 East Boulevard Avenue
Bismarck, ND 58505

Dear Sir:

Pursuant to your instructions and the statutory requirements of the State of North Dakota, a statutory examination has been made of the books, records, and financial condition of

Dundee Mutual Insurance Company

Park River, North Dakota

and the report thereon is respectfully submitted.

INTRODUCTION

The Dundee Mutual Insurance Company, hereinafter referred to as the "Company", was last examined as of December 31, 1999, by an Examiner of the North Dakota Insurance Department.

The current statutory examination was conducted by Examiners from the North Dakota Insurance Department.

SCOPE OF STATUTORY EXAMINATION

This examination covers the five-year period from January 1, 2000, through December 31, 2004, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination. During the course of this examination, assets were verified and valued and all known liabilities were established in accordance with statutory requirements and procedures recommended in the National Association of Insurance Commissioners Examiners Handbook. The extent of review on any given account or activity was based upon its relationship and importance to the total operation.

Accounting and other pertinent records were reviewed and test-checked to the extent deemed appropriate and a general review of the Company's operations was conducted.

Details pertaining to the various phases of the examination are set forth under the appropriate caption in subsequent sections of this report.

Recommendations contained in the prior examination report dated December 31, 1999, have been addressed by the Company except as follows:

Comments/Recommendations	Action/Response by Company
It was recommended that the Company either amend Section VI of the Bylaws or submit the territory of operation of the company for approval by the policyholders on an annual basis.	The Company submits the territory of operation for approval by the policyholders only in years in which the Company's operating territory has changed instead of on annual basis.
It was recommended that the Company amend the provisions of Section VII of the Bylaws to comply with the requirements of N.D. Cent. Code § 26.1-13-06 regarding amendments to the Bylaws.	The Company did not amend the provisions of Section VII.
It was recommended that the Company amend the reinsurance agreement with Grinnell Mutual Reinsurance Company to include an entire contract clause.	The Company did not add the entire contract clause to its reinsurance agreement.

HISTORY

General

The Company was incorporated March 14, 1889, and commenced the transaction of business on March 15, 1889, under the name of "Dundee Walsh County Farmers Mutual Fire Insurance Company" with its home office and principal place of business at Dundee, Dundee Township, Walsh County, North Dakota. Later the home office was removed from Dundee to the farm residence of the Secretary-Treasurer whose post office address was Hoople, North Dakota.

On November 12, 1959, the home office was removed from the farm residence to Park River, North Dakota.

At the annual meeting of the membership dated November 19, 1957, the name of the Company was changed from "Dundee Walsh County Farmers Mutual Fire Insurance Company" to read "Dundee Walsh County Farmers Mutual Insurance Company."

At the annual meeting of the membership held June 21, 1972, the Articles of Incorporation were amended changing the name of the Company to read "Dundee Mutual Insurance Company."

The Company was organized for the purpose of mutually insuring the property of its members against loss or damage by fire, lightning and other hazards as permitted under N.D. Cent. Code Chapter 26-13.

In 1957, the coverage was extended to include windstorm and hail (except on growing crops) and in 1966 was further extended to include vandalism and malicious mischief, theft, water damage, freezing of plumbing, heating, and air conditioning systems, livestock, collapse, glass breakage, and collision or overturn of implements.

On September 26, 1984, the policyholders voted to reorganize the Company to comply with N.D. Cent. Code Chapter 26.1-12 whereby the Company changed its status from a county mutual insurance company to an incorporated mutual insurance company. At the February 13, 1986, Board of Directors meeting, the Board agreed to voluntarily surrender its current Certificate of Authority to do business as an incorporated mutual and agreed to revert to county mutual status to comply with N.D. Cent. Code Chapter 26.1-13. This Certificate of Authority was issued on May 7, 1986.

The Company's term of existence is perpetual.

Growth of the Company and Insurance in Force

The following schedule reflects the growth of the Company during the 10-year period ending December 31, 2004. The figures were taken from the Company's Annual Statements for the years 1995 through 1998 and years 2000 through 2003 and as determined by examinations for years 1999 and 2004.

Year	Insurance In Force	Admitted Assets	Liabilities	Surplus
2004	\$197,369,957	\$1,580,701	\$529,690	\$1,051,011
2003	195,080,725	1,348,177	521,558	826,619
2002	217,663,259	1,084,742	499,046	585,696
2001	249,300,511	1,054,703	696,499	358,204
2000	282,341,092	981,911	759,870	222,041
1999	317,011,509	910,340	713,590	196,750
1998	323,304,402	972,431	729,194	243,237
1997	309,048,899	1,063,648	670,059	393,589
1996	284,663,842	1,165,714	682,351	483,363
1995	259,967,054	1,041,037	535,139	505,898

MANAGEMENT AND CONTROL

Membership

The Company is controlled by the membership. Any person owning property within the limits of the territory within which the Company is authorized to transact business may become a member of the Company and be entitled to all the rights and privileges of membership. No person who does not reside within such territorial limits shall become a director of the Company.

Directors

The Bylaws provide that the number of directors shall be determined each year at the annual meeting of the membership and shall not be less than 5 nor more than 15, a majority of whom shall constitute a quorum to do business. They shall be elected by the members of the Company at the annual meeting for a period of three years and until their successors are elected and qualified; one-third of said directorate shall be elected at each annual meeting. At the election of members to the Board of Directors, each member shall be entitled to one vote, either in person or by proxy, for each director to be elected.

Directors serving as of December 31, 2004, were as follows:

Name	Address	Term Expires	Occupation
Keith Nilson	Park River	2005	Farmer
Allen Ruzicka	Fordville	2007	Farmer
Larry Gellner	Langdon	2005	Farmer
Luther Meberg	Park River	2006	Farmer
Doug Davis	Grafton	2006	Farmer

Officers

The Bylaws provide that the directors shall elect from their number a President and a Vice President and shall also select a Secretary-Treasurer, who may or may not be a member of the Company, all of whom shall hold their office for one year and until successors are elected and qualified.

Officers serving as of December 31, 2004, were as follows:

President	Keith Nilson
Vice President	Doug Davis
Secretary-Treasurer	Eugene Bossert

Corporate Records

The minutes of meetings of policyholders, directors, and committees held during the period covered by this examination were reviewed for compliance with the Company's Articles and Bylaws.

The Bylaws, as officially filed, provide that the members of the Company shall meet annually on the fourth Tuesday in March.

Twenty members, either in person or by proxy, shall constitute a quorum for the transaction of business at any regular or special meeting of the policyholders.

Annual membership meetings were held on the following dates:

March 23, 2000
March 22, 2001
March 28, 2002
March 27, 2003
March 25, 2004

During the period under examination, the directors held six meetings in 2000, nine meetings in 2001, six meetings in 2002, six meetings in 2003, and four meetings in 2004.

Articles and Bylaws

Finding: The Company submits the territory of operation for approval by the policyholders only in years in which the Company's operating territory has changed instead of on an annual basis as required by Article VI of the Bylaws.

It is again recommended that the Company submit the territory of operation for approval by the policyholders on an annual basis as required by Article VI of the Bylaws.

Finding: Section VII of the Bylaws provides that the Board of Directors may amend the Bylaws at any regular or special meeting of the Board. N.D. Cent. Code § 26.1-13-06 requires the affirmative vote of two-thirds of the members of the Company to adopt amendments to the Bylaws, not an affirmative vote of the Directors.

It is again recommended that the Company either delete Section VII of the Bylaws or restate it to comply with N.D. Cent. Code § 26.1-13-06 which states that amendments to the Articles and Bylaws require approval of the policyholders.

EMPLOYEES WELFARE AND PENSION PLANS

The Company provides full health insurance to its two employees and their families. It does not provide health insurance to part-time employees.

The Company established a simplified employee pension plan for its employees in 1989. The Board votes on a yearly bonus for all employees and the employees have the option of taking their bonus in cash or contributing to their simple plan.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2004, a commercial blanket bond was in force which provided \$50,000 coverage for losses resulting from dishonest acts committed by any of the Company's employees. The coverage meets the minimum amount of fidelity insurance suggested in the National Association of Insurance Commissioners' formula.

The Company also had in force a directors and officers liability insurance policy providing a limit of liability of \$1,000,000 each policy year. Each claim is subject to a \$5,000 deductible. The policy provides coverage for errors or omissions in the performance of professional services and wrongful acts of a director or officer while acting solely in their individual or collective capacities as directors and officers.

Insurance coverage on the Company's home office building was reviewed and appeared to be adequate.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed to do business in the State of North Dakota only. The overall production of the Company's business is under the supervision of the Secretary-Treasurer.

As of the date of this examination, approximately 90 agents were licensed to produce business for the Company.

The territory of the Company's operation is 28 counties as follows:

Barnes	Benson	Burleigh	Cass	Cavalier	Eddy
Foster	Kidder	Grand Forks	Griggs	McHenry	McLean
Mercer	Morton	Nelson	Oliver	Pembina	Pierce
Ramsey	Richland	Sheridan	Steele	Stutsman	Towner
Traill	Walsh	Ward	Wells		

Advertising

The Company's advertising consisted primarily of newspaper and radio advertising, directory advertising, and give-away items.

Treatment of Policyholders

The Company maintains a manual claim register and the WRC system produces a claims register both of which contain paid losses and claims closed without settlement.

The Examiner performed limited testing of claims files for timeliness of payment and supporting documentation and noted no exceptions.

OPERATING AGREEMENTS

Universal Adjustment Services, Inc.

In March 2004 the Company and four other North Dakota domestic county mutual insurance companies entered into a contract with Universal Insurance Services, Inc. (Universal) for the purpose of obtaining claims adjusting and risk review services on an extended basis.

The contract provides for Universal to perform a maximum of 450 claim adjustments or risk reviews per year. Claims adjusted by Universal above that number will be billed to the incurring entity at the rate of \$30 per hour plus mileage and per diem.

For services provided, Universal shall receive the annual sum of \$60,000 to be paid in monthly installments of \$5,000 each. (For year 2004, the sum was prorated to \$45,000.) In addition to the \$60,000 annual compensation, Universal shall receive additional payments of \$3,750 in 2004 and \$5,000 in each of the years 2005 and 2006.

The agreement terminates on December 31, 2006, or earlier if Universal fails to perform its contractual obligations. The contract shall continue and be binding upon any one or more of the five insurance companies signing this contract if they participate in a merger or consolidation.

For 2004, the Company's share of the \$5,000 monthly charge was determined to be \$1,442.50 per month. The total amount paid by the Company in 2004 for services provided by Universal under the contract was \$14,425.

OPERATIONS REVIEW

In May 2000, representatives of Grinnell Mutual Reinsurance Company (Grinnell) performed an operations review covering the following areas:

- Claims
- Underwriting
- Loss control

As a result of that review, the Company developed various manuals recommended by Grinnell and implemented other procedures suggested by Grinnell.

Grinnell performed another operations review in August 2003 covering the same operational areas.

REINSURANCE

The reinsurance treaty in force at December 31, 2004, is summarized below.

Nonaffiliated Ceding Contract:

Type: Excess

Reinsurer: Grinnell Mutual Reinsurance Company

Scope: All policy forms and endorsements issued by the Company

- (A) Individual Occurrence of Loss Excess - Covers all fire and windstorm risks written by the Company in excess of a \$100,000 retention subject to the following limits:

Dwellings	\$500,000
Farm Outbuildings	\$750,000
Livestock/Poultry/Horse Operations	\$500,000
Commercial and Public Property	\$500,000

- (B) Aggregate Excess - Provides coverage for 100 percent of the Company's aggregate net losses in excess of a defined retention limit. The retention limit for 2004 was \$592,823.

- (C) Comprehensive Personal Liability and Farmers Comprehensive Personal Liability covers 100% of all comprehensive personal liability and farmers comprehensive personal liability losses.
- Premium:
- (A) Individual Occurrence of Loss Excess - The 2004 annual premium was \$.2455 for fire and \$.0309 for wind per \$1,000 adjusted gross fire risks in force.
- (B) Aggregate Excess - The 2004 annual premium was \$.4325 per \$1,000 of adjusted gross fire risks in force.
- (C) Comprehensive Personal Liability and Farmers Comprehensive Personal Liability 100% of premiums charged.
- Commissions: 20% commission on farmers' comprehensive personal liability and comprehensive personal liability premiums ceded.
- Termination Date: The agreement may be terminated only as of the last day of any calendar year by either party upon 90 days notice.

Finding: The contract contained the insolvency clause required by N.D. Cent. Code Chapter 26.1-02-21 and all of the clauses required by the NAIC's *Accounting Practices and Procedures Manual* except for the entire contract clause.

<p>Recommendation: It is again recommended that the Company amend the reinsurance agreement with Grinnell Mutual Reinsurance Company to include an entire contract clause.</p>

ACCOUNTS AND RECORDS

The accounts and records of the Company are on an accrual basis and consist of a computerized general ledger, income and disbursement records, check register and investment ledger. Company manually maintains a corporate record book. The general ledger accounts are set up to provide the necessary information in preparing annual statements.

The Company's computer hardware at December 31, 2004, consisted of one server, three personal computers, two printers, and peripheral equipment. The Company used the WRC application software program to process its policy related transactions during the period under examination. Effective January 1, 2005, the Company began using a software program developed by Rural Computer Consultants, Inc. to process its policy related transactions.

The Examiner traced the December 31, 2004, trial balance to the 2004 Annual Statement and conducted other tests of the accounting records during the course of this examination to determine if the annual statement was completed in accordance with *Annual Statement Instructions*.

FINANCIAL STATEMENTS

The financial statements section includes the following:

Statement of Assets, Liabilities, and Surplus as of December 31, 2004

Statement of Cash Receipts and Cash Disbursements for the Year of 2004

Dundee Mutual Insurance Company
Statement of Assets, Liabilities, and Surplus
December 31, 2004

ASSETS

LEDGER ASSETS:

Bonds	\$200,000.00	
Stocks	55,506.77	
Real Estate	41,362.07	
Cash on Hand and Checking Account	14,574.93	
Cash on Deposit	1,212,532.47	
Uncollected Premiums	49,843.00	
EDP Equipment	21,573.28	
Furniture and Fixtures	254.35	
TOTAL LEDGER ASSETS		\$1,595,646.87

NONLEDGER ASSETS:

Interest Due and Accrued on Bonds	\$ 629.18	
Interest Due and Accrued on Cash on Deposit	7,533.03	
TOTAL NONLEDGER ASSETS		8,162.21

DEDUCT: ASSETS NOT ADMITTED

Furniture and Fixtures	\$ 254.35	
Book Value of Ledger Assets in Excess of Market Value	2,851.57	
Computer Software	20,001.44	
TOTAL NONADMITTED ASSETS		23,107.36

TOTAL NET ADMITTED ASSETS	\$1,580,701.72
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LIABILITIES

Unpaid Losses	\$ 46,500.00
Unpaid Loss Adjustment Expense	400.00
Unearned Premium Reserve	415,389.51
Commissions Due and Payable to Agents	26,540.07
Unpaid Taxes	5,361.59
Unpaid General Expenses	1,282.08
Federal Income Taxes Payable	17,226.00
Reinsurance Premiums Due and Payable	16,991.45

TOTAL LIABILITIES	\$529,690.70
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SURPLUS TO POLICYHOLDERS	1,051,011.02
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TOTAL LIABILITIES AND SURPLUS	\$1,580,701.72
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Dundee Mutual Insurance Company
Statement of Cash Receipts and Cash Disbursements
For the Year 2004

INCOME

Gross Premium Income	\$912,421.75	
Less: Returned Premiums	20,788.00	
Premiums for Reinsurance Ceded	197,163.12	
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NET PREMIUM INCOME		\$694,470.63

Interest on Bonds	7,999.92	
Dividends on Stocks	2,298.22	
Gross Rent From Company's Property	6,000.00	
Interest on Cash on Deposit	19,152.81	
Commissions and service fees received	1,446.05	
Miscellaneous Income	30.00	
	<hr/>	
TOTAL INCOME RECEIPTS		\$731,397.63

DISBURSEMENTS

Gross Losses Paid and Incurred in 2004	\$ 123,714.45	
Gross Losses Paid in 2004 But Incurred in Prior Years	61,606.24	
Deduct: Salvage	5,657.00	
Reinsurance	38,211.76	
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NET LOSSES PAID		\$141,451.93

Claim Adjustment Expenses	25,351.51	
Commissions Paid to Agents	119,498.34	
Directors' Fees and Expenses	3,700.69	
Salaries to Employees	84,576.01	
Printing, Stationery, and Office Supplies	3,656.61	
Rent and Rent Items	10,005.61	
Real Estate Expenses	6,050.66	
Taxes on Real Estate	1,641.81	
State and Local Insurance Taxes	13,983.00	
Insurance Department Licenses and Fees	1,060.00	
Payroll Taxes	7,137.29	
Federal Income Tax	15,000.00	
Legal Fees and Auditing	1,054.59	
Travel and Travel Items	4,096.59	
Advertising	2,426.37	
Dues and Donations	4,225.00	
Equipment	1,816.49	
Insurance and Bonds	5,085.20	
Postage, Telephone, and Bank Charges	6,659.37	
Employee Relations and Welfare	21,491.72	
Data Processing Expenses	7,868.30	
Loss on Disposal of Bonds	7,966.12	
Miscellaneous Expenses	2,566.31	
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TOTAL FUNDS DISBURSED		498,369.52
		<hr/>
NET GAIN (LOSS)		\$ 233,028.11

COMMENTS ON FINANCIAL STATEMENTS

Financial statement balances at December 31, 2004, are commented upon only if financial changes, recommendations, or special explanations are considered necessary.

Bonds

The following schedule discloses the description, par value, book value, market value, and actual cost of the four bonds owned at December 31, 2004:

Description	Par Value	Book Value	Market Value	Actual Cost
Governments	\$200,000.00	\$200,000.00	\$196,506.00	\$197,005.00
Total	\$200,000.00	\$200,000.00	\$196,506.00	\$197,005.00

Finding: The Company purchased three bonds at a discount in 2003 and incorrectly adjusted the book value of those bonds to par value in 2003 rather than amortizing the difference between cost and par value over the estimated life of the bond.

Recommendation: It is recommended that the Company prepare amortization schedules for the three bonds purchased at a discount in 2003 and record a correcting entry to adjust the book value of those bonds from par value to amortized value.

Unpaid Losses

The reserve for unpaid losses at December 31, 2004, was determined by this examination in the amount of \$46,500.00 or \$7,984.18 more than the \$38,515.82 reserve established by the Company. The Examiner established the reserve for unpaid losses based on a review of subsequent payments and reserves for pending claims.

Unearned Premium Reserve

The Company's gross unearned premium reserve is automatically computed by the WRC software application using the daily pro-rata method. The following schedule shows the components of the unearned premium reserve at December 31, 2004:

Description	Amount
Gross Unearned Premiums	\$453,991.67
Ceded Reinsurance Unearned Premiums	38,602.16
Net Unearned Premiums	<u>\$415,389.51</u>

The Examiner agreed gross unearned premiums of \$453,991.67 to a summary report containing totals by line of business for in-force and unearned premiums. The Company computed its

unearned premium credit for ceded liability premiums using the semi-monthly pro-rata basis. Testing by the Examiner determined that the \$38,069.75 unearned premium credit reported by the Company was understated by \$532.41.

Unpaid General Expenses

The Examiner determined the liability for unpaid general expenses to be \$1,282.08 at December 31, 2004, or \$316.59 more than the liability reported by the Company.

Federal Income Taxes Payable

The Company is subject to federal income taxes under Section 501(c)(15) of the Internal Revenue Code. The Company's final 2004 federal income tax return showed its 2004 federal income tax to be \$32,226 or \$17,226 more than the \$15,000 estimated payments made by the Company in 2004.

The Company did not establish a liability for federal income taxes payable in its 2004 Annual Statement.

Surplus to Policyholders

Surplus to policyholders was determined by this examination to be in the amount of \$1,051,011.02 or \$24,994.36 less than the amount reported by the Company.

Adjustments to surplus are shown in the following schedule:

Caption	Company	Examination	Increase or (Decrease) to Surplus
Liabilities			
Unpaid Losses	\$ 38,515.82	\$ 46,500.00	\$ (7,984.18)
Unearned Premiums	415,921.92	415,389.51	532.41
Unpaid General Expenses	965.49	1,282.08	(316.59)
Federal Income Taxes Payable	0	17,226.00	<u>(17,226.00)</u>
Net Change			<u>\$(24,994.36)</u>

CONCLUSION

The financial condition of Dundee Mutual Insurance Company, Park River, North Dakota, as determined by this examination is summarized as follows:

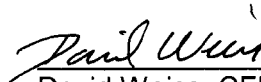
TOTAL ADMITTED ASSETS		<u>\$1,580,701.72</u>
Liabilities	\$ 529,690.70	
Surplus to Policyholders	<u>1,051,011.02</u>	
TOTAL LIABILITIES AND SURPLUS		<u>\$1,580,701.72</u>

Since the last examination conducted as of December 31, 1999, the Company's admitted assets have increased \$670,361.60, its total liabilities have decreased \$183,899.84, and its surplus as regards policyholders has increased \$854,261.44.

In addition to the undersigned, Chad Myhre, Examiner, participated in this examination.

The Examiners express their appreciation for the courteous cooperation extended them during the course of this examination.

Respectfully submitted,



David Weiss, CFE
Examiner
N.D. Insurance Department

COMMENTS AND RECOMMENDATIONS

It is again recommended that the Company submit the territory of operation for approval by the policyholders on an annual basis as required by Article VI of the Bylaws.

It is again recommended that the Company either delete Section VII of the Bylaws or restate it to comply with N.D. Cent. Code § 26.1-13-06 which states that amendments to the Articles and Bylaws require approval of the policyholders.

It is again recommended that the Company amend the reinsurance agreement with Grinnell Mutual Reinsurance Company to include an entire contract clause.

It is recommended that the Company prepare amortization schedules for the three bonds purchased at a discount in 2003 and record a correcting entry to adjust the book value of those bonds from par value to amortized value.